



**DATE:** March 13, 2024

**TO:** Board of Commissioners

**FROM:** Kimberly Branam, Executive Director

**SUBJECT:** Report Number 24-09

Authorizing Execution of a Lease Agreement with STI NEWCO, LLC, for Property Located at 2221 N. Argyle Street in the Interstate Corridor Tax Increment Finance District

### **BOARD ACTION REQUESTED AND BRIEF DESCRIPTION**

Adopt Resolution No. 7527

This action by the Prosper Portland Board of Commissioners (Board) will authorize execution of a lease agreement (Lease) between Prosper Portland and STI NEWCO, LLC, doing business as Spar-Tek Industries (Spar-Tek), for the Prosper Portland-owned property (Property) located within the Interstate Corridor Tax Increment Finance District and located at 2221 N. Argyle Street (see an Aerial Map in Attachment A).

The original lease term with Spar-Tek terminated on November 30, 2023. Since that time, Prosper Portland staff has been negotiating a lease extension with Spar-Tek, whose lease has been month-to-month. If approved, the Lease will terminate in November 2028, unless the tenant exercises one or both of its options to extend the lease for an additional year or Tenant exercises its purchase option.

### **STRATEGIC ALIGNMENT AND OUTCOMES**

Spar-Tek (which employs approximately 37 full-time individuals) engineers and fabricates high-quality machinery with cutting-edge technology for many industries including plywood, laminated veneer lumber, and rubber. Their presence in the Kenton neighborhood complements Prosper Portland's Advance Portland goal of fostering vibrant commercial districts by retaining and supporting small businesses. Spar-Tek has been committed to the Kenton neighborhood and their employees since the 1970s when it built the current structure.

### **BACKGROUND AND CONTEXT**

On May 11, 2011, the Prosper Portland Board through Resolution No. 6872 authorized acquisition of the Property, which is comprised of a 59,485 square foot parcel improved with a 35,000 square foot single tenant industrial/warehouse building (see a Property Plan in Attachment B). The original acquisition goals for the Property were for Prosper Portland to work in coordination with TriMet, which had acquired a 2.2-acre lot in 2005 located east of the Spar-Tek Building/Argyle Street Lot and north of the Nelson Industrial Building/Nelson Retail Site, and to jointly master plan a future transit-oriented development. While full master plan build-out didn't occur, development of a four-story, 189-unit housing project was completed on one of the parcels of land east of the Property.

Spar-Tek has been a tenant of the building since the 1970s when it was built. At the time of acquisition, Prosper Portland assumed their lease which was a triple-net (NNN) lease. The assumed lease had been amended prior to acquisition, with an expiration date of November 2013, with an option to extend to

November 2016. In 2013, that option to extend was executed, and Prosper Portland amended the lease to expire November 30, 2023.

The new Lease is triple-net (NNN) and the Spar-Tek is responsible for all operating costs associated with the structure and land, including real and personal property taxes, property insurance, and all building maintenance, repairs, alterations, and improvements, except for the roof and the walls (but including windows and surface treatments). Since Prosper Portland's assumption of this lease in 2011, Spar-Tek has made consistent lease payments on time. During the pandemic Prosper Portland offered abatements to various tenants to support businesses remaining in operation, including Spar-Tek, and this lease memorializes that abatement and waives any claims against the tenant. After conferring with Spar-Tek, staff recommends the following terms:

- Base Rent: \$5.75 with a three percent escalation starting in year three
- Lease Term: Five years with two options to extend for one-year renewal, for a maximum seven-year term
- NNN: Reimbursement of property taxes and insurance that Prosper Portland incurs
- Option to Purchase: Anytime during the term of the lease, including options

#### **EQUITY IMPACT**

Spar-Tek provides living wages and benefits to their staff and is a long-standing business within the Kenton community.

#### **COMMUNITY PARTICIPATION AND FEEDBACK**

Staff did not conduct community outreach as part of this transaction.

#### **BUDGET AND FINANCIAL INFORMATION**

The fiscal year 2023-24 Interstate Corridor TIF District budget reflects decreased revenues to account for the rent abatement and Net Operating Income (NOI) revenues of \$36,000 (see Attachment C). The updated Financial Sustainability Plan (FSP) assumes a total NOI of \$847,500 over a five-year period starting in FY 2024-25. The negotiated Lease terms anticipate an NOI return of \$631,572 over that same five-year period; this constitutes a 75 percent return to the FSP goal, with the majority of that difference due the abated six months of rent.

#### **RISK ASSESSMENT**

If Prosper Portland and Spar-Tek are not able to agree to Lease renewal terms or if Spar-Tek elects to terminate the Lease and vacate the property, Prosper Portland risks include the following:

- Revenue loss due to vacancy and holding costs during the term the property remains vacant;
- Payment of leasing commissions for a new tenant to be secured; and
- Tenant improvement costs to build out the property for a new tenant, with significantly higher costs if the replacement tenant's business operations are substantially different from Spar-Tek's building use.

#### **ATTACHMENTS**

- A. Aerial Map
- B. Property Plan
- C. Interstate Corridor TIF District Financial Summary

**AERIAL MAP**



2221 N. Argyle Street

# Spar-Tek Building - Property Plan

Thursday, September 12, 2019 5:00 PM

Property Strategic Considerations	
Goals & Objectives	
Acquisition Date & Purpose	June 30, 2011 from Nelson Investment Company <ul style="list-style-type: none"> <li>Acquired to help realize community goals of a vibrant business district by leveraging the substantial size and location (Resolution 6872-May 11, 2011)</li> </ul>
Property Plan Objective	Operating Asset / Hold
2015-2020 Strategic Plan Objective(s)	Objective 1: Create Healthy, Complete Neighborhoods Throughout Portland
Financial Sustainability Plan Objective	Program Related Investment - 2.5%
Equity Objective(s)	Interim: Supports business vitality and opportunities for employment of middle-wage jobs  Development: N/A
Property Information	
Property Characteristics	
Property Code <sup>1</sup>	370-A00336
Property Name(s)	Spar-Tek Building
Project Name(s)	Spar-Tek Building
Property Description	Industrial Manufacturing Building
Address	2221 N Argyle Street
RNumber(s)	<a href="#">R224791</a>
Tax Lot Description(s)	NATIONAL ADD, BLOCK 1&2 TL 900, LAND & IMPS SEE R653077
Lot Size	1.37 acres
Building SF	29,250 sq ft
Neighborhood	
URA	Interstate
Neighborhood	Kenton
NMTC Census Tract	Census Tract 38.01
Opportunity Zone	Yes
Zoning	R1-Residential 1,000; d-Design
Base FAR & Height	Base Zone
Financial Baseline	
Book Value (2017)	\$1,431,000
Real Market Value (2017)	\$2,060,130
Appraised Value	April 17, 2011; \$1,920,000; Integra
Financial Sustainability Plan Cash Flow	\$52,046 FY 19/20

	\$446,709 Ten-year outlook including FY 19/20
<b>Due Diligence</b>	
Alta/As-Built	N/A
Title Report	N/A
Title Easements	N/A
Site Constraints	None
Environmental Documents/Notes	ESA Phase I: January 2011; ESA Phase II: March 2011; Hazardous Building: February 2011; Residual pockets of PCS; Cleanup part of future development (GASB 49 17/18)
<b>Additional Information</b>	
Historical Background	
Interim Activity Strategy	Lease to industrial business
<b>Development Goals &amp; Objectives</b>	
<b>Re-Development/Re-Use</b>	
Active/Inactive	Inactive
Phase of Development (acquisition, community process, predev, disposition, construction)	N/A
Development Concept(s)	N/A
Action Plan / Framework(s)	N/NE Community Development Initiative
URA / Community Goal(s)	N/A
Major Consultant Contracts	N/A
Major Milestone(s) & Deadline(s)	Lease with Spar-Tek expires November 30, 2023
Project Budget	<a href="#">See Fund 370 Budget</a>
Project Manager	Charles Funches
Project Team Member(s) & Responsibility	Ember Breckenridge (Property Management), John Cardenas (Community Liaison)
Project Sponsor	Kay Little
Developer	N/A
Major External Stakeholder(s)	N/A
Major Bureau Partner(s)	N/A
<b>Agency Approvals &amp; Recommendations</b>	
FIC Approval(s)	N/A
Board/Council Approval(s) & Recommendation(s)	N/A
<b>Agreements</b>	
LOI/MOU/DDA/PSA	N/A
<b>Additional Notes</b>	
Project File Document Location	

## INTERSTATE CORRIDOR TIF DISTRICT FINANCIAL SUMMARY

### Financial Summary Forecast

Interstate Corridor TIF Fund	Revision FY 2023-24	Requested FY 2024-25	Forecast FY 2025-26	Forecast FY 2026-27	Forecast FY 2027-28	Forecast FY 2028-29
<b>Resources</b>						
Beginning Fund Balance	85,920,833	76,144,219	31,038,096	10,461,933	1,783,035	153,355
<b>Revenue</b>						
Interest on Investments	1,718,417	646,420	389,226	237,064	174,787	-
Loan Collections	181,027	-	-	-	-	-
TIF - Short Term Debt	28,926,984	-	-	-	-	-
TIF - Long Term Debt	-	2,543,090	-	-	-	-
<b>Rent and Property Income</b>	<b>497,997</b>	<b>571,722</b>	<b>585,715</b>	<b>590,402</b>	<b>605,623</b>	<b>610,595</b>
Reimbursements	168,318	186,947	187,707	188,491	189,297	189,297
<b>Total Revenue</b>	<b>31,492,743</b>	<b>3,948,179</b>	<b>1,162,648</b>	<b>1,015,957</b>	<b>969,707</b>	<b>799,892</b>
<b>Total Resources</b>	<b>117,413,576</b>	<b>80,092,398</b>	<b>32,200,744</b>	<b>11,477,890</b>	<b>2,752,742</b>	<b>953,247</b>
<b>Requirements</b>						
<b>Administration</b>						
A00030-Debt Management-ISC	101,880	102,110	69,800	-	-	-
A00729-EDPA2 Litigation-ISC	65,000	-	-	-	-	-
<b>Administration Total</b>	<b>166,880</b>	<b>102,110</b>	<b>69,800</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Economic Development</b>						
<b>Business Advancement &amp; Traded Sector</b>						
A00381-Lean Manufacturing-ISC	10,188	-	-	-	-	-
<b>Community Economic Development</b>						
A00122-Community Development-ISC	130,338	-	-	-	-	-
A00106-NPI & Main St Network-ISC	100,000	-	-	-	-	-
<b>Business Lending</b>						
A00209-BL -General-ISC	200,000	200,000	400,000	200,000	200,000	-
<b>Economic Development Total</b>	<b>440,526</b>	<b>200,000</b>	<b>400,000</b>	<b>200,000</b>	<b>200,000</b>	<b>-</b>
<b>Housing</b>						
A00171-Affordable Housing-ISC	18,437,697	23,892,121	16,511,167	-	-	-
A00516-Home Repair Loan (Goal 3)-ISC	600,000	-	-	-	-	-
A00746-Downpayment Assist Prog (Goal3)-ISC	1,200,000	-	-	-	-	-
<b>Housing Total</b>	<b>20,237,697</b>	<b>23,892,121</b>	<b>16,511,167</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Property Redevelopment</b>						
<b>Commercial Property Lending</b>						
A00341-Prpty Acquisition Loan-Goal 1-ISC	-	2,500,000	-	-	-	-
A00366-Prpty Dev Large Loan (Goal 1)-ISC	4,884,752	2,300,000	-	6,200,000	-	-
A00527-Tenant Improv PIP Match (Goal 2)-ISC	100,000	536,000	-	-	-	-
A00735-Prpty Dev Small Loan PIP Match (Goal 1)-ISC	100,000	590,000	-	-	-	-
A00745-Cultural Business Hub (Goal 5)-ISC	-	1,000,000	1,500,000	1,000,000	1,000,000	-
<b>Real Estate Management</b>						
A00333-MLK Alberta-ISC	312,815	328,161	336,129	336,392	344,642	351,852
A00335-Nelson Bldg-Indust-ISC	190,612	188,731	196,684	201,157	210,000	210,000
<b>A00336-Spar-Tek Building-ISC</b>	<b>61,201</b>	<b>65,268</b>	<b>70,020</b>	<b>75,195</b>	<b>80,831</b>	<b>80,831</b>
A00338-3620 NE MLK Prkng-ISC	35,805	35,805	35,805	-	-	-
A00515-MLK Heritage Markers-ISC	34,409	-	-	-	-	-
A00552-Albina Triangle Garage-GTW	18,853	18,853	18,853	-	-	-
<b>Real Estate Acquisition</b>						
A00341-Property Development-ISC	-	2,500,000	-	-	-	-
<b>Redevelopment Strategy</b>						
A00515-MLK Heritage Markers-ISC	400	-	-	-	-	-
A00532-Williams and Russell-ISC	402,305	9,997,695	-	-	-	-
<b>Redevelopment Grants</b>						
A00131-Community Livability Grant (Goal 4)-ISC	1,108,107	44,000	-	-	-	-
A00502-Prosperity Investment Program Small Scale Grant (Goal 1)-ISC	702,183	-	-	-	-	-
A00734-Prosperity Investment Program Large Scale Grant (Goal 1)-ISC	225,000	-	-	-	-	-
A00736-Prosperity Investment Program Grant (Goal 2)-ISC	225,000	-	-	-	-	-
A00737-Affordable Commercial Space (Goal2)-ISC	1,000,000	4,250,000	-	-	-	-
<b>Property Redevelopment Total</b>	<b>9,401,442</b>	<b>21,854,513</b>	<b>2,157,491</b>	<b>7,812,744</b>	<b>1,635,473</b>	<b>642,683</b>
<b>Total Program Expenditures</b>	<b>30,246,545</b>	<b>46,048,744</b>	<b>19,138,458</b>	<b>8,012,744</b>	<b>1,835,473</b>	<b>642,683</b>
<b>Personnel Services</b>	<b>853,111</b>	<b>1,309,457</b>	<b>1,170,353</b>	<b>772,111</b>	<b>373,914</b>	<b>275,762</b>
<b>Total Fund Expenditures</b>	<b>31,099,656</b>	<b>47,358,201</b>	<b>20,308,811</b>	<b>8,784,855</b>	<b>2,209,387</b>	<b>918,445</b>
Interfund Transfers - Indirect Charges	2,169,701	1,696,101	1,430,000	910,000	390,000	260,000
Interfund Transfers - Cash Transfers	8,000,000	-	-	-	-	-
Contingency	76,144,219	31,038,096	10,461,933	1,783,035	153,355	(225,198)
<b>Total Fund Requirements</b>	<b>117,413,576</b>	<b>80,092,398</b>	<b>32,200,744</b>	<b>11,477,890</b>	<b>2,752,742</b>	<b>953,247</b>